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UNCLAS TEGUCIGALPA 001910

SIPDIS

STATE FOR WHA/CEN, WHA/EPSC, EB/ESC
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E.O. 12958: N/A

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SUBJECT: Honduran "Notables" Report Recommends GOH Keep
Gasoline Prices Frozen

REF: Tegucigalpa 01873

1. (U) This is an action request: Please see para 4.

2. (U) A special "notables" committee appointed to review how the GOH sets gasoline prices (reftel) issued a recommendation September 16 to continue the current price freeze in effect for the past 8 days. Commission head Cardinal Oscar Rodriguez stated, "We need to continue this energy state of emergency until we can change the pattern of energy usage and implement renewable energy programs."

3. (SBU) On September 16, EconChief spoke with Minister of Industry and Trade Irving Guerrero about the continuing political crisis regarding fuel prices and the Commission's report. (Note: Guerrero will be responsible for evaluating and implementing the Commission's recommendations, since the Petroleum Technical Unit -- the GOH office that sets fuel prices -- is part of Guerrero's ministry. End Note.) Guerrero, who had only arrived from an international trip at mid-day that day, had not yet had an opportunity to review the report (also issued at mid-day September 16), but had already had conversations with several Commission members. In their discussion with him, the members praised calls in the report to improve competition. Guerrero saw this as somewhat ironic, as these same members have postured in the press calling for nationalization of imports and increased ties to Venezuela. Guerrero dismissed out of hand any nationalization proposals, noting that they were "philosophically unacceptable," particularly in light of Honduras' CAFTA commitments. Guerrero was relieved the report finds no evidence of price manipulation by the GOH, but was somewhat irritated by the report's criticism that the current pricing mechanism distorts the market. "Of course it distorts the market," he said. "Any government intervention in the free market is going to cause a distortion." (Comment: While Guerrero did not make it explicit, it appears to us that he would prefer a free-market pricing mechanism, but recognizes this is likely politically impossible in the short-term. End Comment.)

4. (SBU) When EconChief spoke with him, Guerrero had just returned from what he enthusiastically described as a successful visit to Brazil, where he signed an agreement with the GOB for technology transfer regarding ethanol and biodiesel. Within 18 months, Guerrero said, Honduras will be using ten percent ethanol and biodiesel (though he predicted a five to ten percent per gallon ethanol mixture to start). Guerrero also noted that new legislation lowered import tariffs on flexible fuel vehicles (vehicles that can run on gasoline or gasoline/ethanol mixtures) to zero, in a bid to encourage wider-spread adoption of the technology. Guerrero is also open to technical or policy (regulations and standards) cooperation with the U.S. Department of Energy. Action requested: Post would welcome Department assistance in evaluating what DOE assistance might be available.

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